



House of Representatives

General Assembly

File No. 762

January Session, 2005

Substitute House Bill No. 6655

House of Representatives, May 16, 2005

The Committee on Finance, Revenue and Bonding reported through REP. STAPLES of the 96th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING GROUPS COVERED UNDER THE STATE EMPLOYEE HEALTH PLAN AND ASSOCIATION GROUP PLANS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (i) of section 5-259 of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective from*
3 *passage*):

4 (i) The Comptroller may provide for coverage of employees of
5 municipalities, nonprofit corporations, community action agencies and
6 small employers and individuals eligible for a health coverage tax
7 credit, retired members or members of an association for personal care
8 assistants under the plan or plans procured under subsection (a) of this
9 section, provided: (1) Participation by each municipality, nonprofit
10 corporation, community action agency, or small employer, or
11 eligible individual, retired member or association for personal care
12 assistants shall be on a voluntary basis; (2) where an employee
13 organization represents employees of a municipality, nonprofit

14 corporation, community action agency or small employer,
15 participation in a plan or plans to be procured under subsection (a) of
16 this section shall be by mutual agreement of the municipality,
17 nonprofit corporation, community action agency or small employer
18 and the employee organization only and neither party may submit the
19 issue of participation to binding arbitration except by mutual
20 agreement if such binding arbitration is available; (3) no group of
21 employees shall be refused entry into the plan by reason of past or
22 future health care costs or claim experience; (4) rates paid by the state
23 for its employees under subsection (a) of this section are not adversely
24 affected by this subsection; (5) administrative costs to the plan or plans
25 provided under this subsection shall not be paid by the state; (6)
26 participation in the plan or plans in an amount determined by the state
27 shall be for the duration of the period of the plan or plans, or for such
28 other period as mutually agreed by the municipality, nonprofit
29 corporation, community action agency, small employer, retired
30 member or association for personal care assistants and the
31 Comptroller; and (7) nothing in [public act 03-6 of the June 30 special
32 session*] this section or section 12-202a, as amended by this act, 38a-
33 551, 38a-553 or 38a-556 shall be construed as requiring a participating
34 insurer or health care center to issue individual policies to individuals
35 eligible for a health coverage tax credit. The coverage provided under
36 this section may be referred to as the "Municipal Employee Health
37 Insurance Plan". The Comptroller may arrange and procure for the
38 employees and eligible individuals under this subsection health benefit
39 plans that vary from the plan or plans procured under subsection (a) of
40 this section. Notwithstanding any provision of [law] part V of chapter
41 700c, the coverage provided under this subsection may be offered [to
42 employees] on either a fully underwritten or risk-pooled basis at the
43 discretion of the Comptroller. [, except that coverage offered to small
44 employers shall be fully underwritten in accordance with part V of
45 chapter 700c.] For the purposes of this subsection, (A) "municipality"
46 means any town, city, borough, school district, taxing district, fire
47 district, district department of health, probate district, housing
48 authority, regional work force development board established under

49 section 31-3k, regional emergency telecommunications center, tourism
50 district established under section 32-302, flood commission or
51 authority established by special act, regional planning agency, transit
52 district formed under chapter 103a, or the Children's Center
53 established by number 571 of the public acts of 1969; (B) "nonprofit
54 corporation" means (i) a nonprofit corporation organized under 26
55 USC [501(c)(3)] 501 that has a contract with the state or receives a
56 portion of its funding from a municipality, the state or the federal
57 government, or (ii) an organization that is tax exempt pursuant to 26
58 USC 501(c)(5); (C) "community action agency" means a community
59 action agency, as defined in section 17b-885; (D) "small employer"
60 means a small employer, as defined in subparagraph (A) of
61 subdivision (4) of section 38a-564, as amended by this act; (E) "eligible
62 individuals" or "individuals eligible for a health coverage tax credit"
63 means [persons] individuals who are eligible for the credit for health
64 insurance costs under Section 35 of the Internal Revenue Code of 1986,
65 or any subsequent corresponding internal revenue code of the United
66 States, as from time to time amended, in accordance with the Pension
67 Benefit Guaranty Corporation and Trade Adjustment Assistance
68 programs of the Trade Act of 2002 (P.L. 107-210); [and] (F) "association
69 for personal care assistants" means an organization composed of
70 personal care attendants who are employed by recipients of service (i)
71 under the home-care program for the elderly under section 17b-342, (ii)
72 under the personal care assistance program under section 17b-605a,
73 (iii) in an independent living center pursuant to sections 17b-613 to
74 17b-615, inclusive, or (iv) under the program for individuals with
75 acquired brain injury as described in section 17b-260a; and (G) "retired
76 members" means individuals eligible for a retirement benefit from the
77 Connecticut municipal employees' retirement system.

78 Sec. 2. Section 12-202a of the general statutes is repealed and the
79 following is substituted in lieu thereof (*Effective July 1, 2005, and*
80 *applicable to income years commencing on or after January 1, 2005*):

81 (a) Each health care center, as defined in section 38a-175, that is
82 governed by sections 38a-175 to 38a-192, inclusive, shall pay a tax to

83 the Commissioner of Revenue Services for the calendar year
84 commencing on January 1, 1995, and annually thereafter, at the rate of
85 one and three-quarters per cent of the total net direct subscriber
86 charges received by such health care center during each such calendar
87 year on any new or renewal contract or policy approved by the
88 Insurance Commissioner under section 38a-183. Such payment shall be
89 in addition to any other payment required under section 38a-48.

90 (b) Notwithstanding the provisions of subsection (a) of this section,
91 the tax shall not apply to:

92 (1) Any new or renewal contract or policy entered into with the state
93 on or after July 1, 1997, to provide health care coverage to state
94 employees, retirees and their dependents;

95 (2) [any] Any subscriber charges received from the federal
96 government to provide coverage for Medicare patients;

97 (3) [any] Any subscriber charges received under a contract or policy
98 entered into with the state to provide health care coverage to Medicaid
99 recipients under the Medicaid managed care program established
100 pursuant to section 17b-28, which charges are attributable to a period
101 on or after January 1, 1998;

102 (4) [any] Any new or renewal contract or policy entered into with
103 the state on or after April 1, 1998, to provide health care coverage to
104 eligible beneficiaries under the HUSKY Medicaid Plan Part A, HUSKY
105 Part B, or the HUSKY Plus programs, each as defined in section 17b-
106 290;

107 (5) [any] Any new or renewal contract or policy entered into with
108 the state on or after April 1, 1998, to provide health care coverage to
109 recipients of state-administered general assistance pursuant to section
110 17b-192;

111 (6) [any] Any new or renewal contract or policy entered into with
112 the state on or after February 1, 2000, to provide health care coverage
113 to retired teachers, spouses or surviving spouses covered by plans

114 offered by the state teachers' retirement system;

115 (7) [any] Any new or renewal contract or policy entered into on or
116 after July 1, 2001, to provide health care coverage to employees of a
117 municipality and their dependents under a plan procured pursuant to
118 section 5-259, as amended by this act;

119 (8) [any] Any new or renewal contract or policy entered into on or
120 after July 1, 2001, to provide health care coverage to employees of
121 nonprofit organizations and their dependents under a plan procured
122 pursuant to section 5-259, as amended by this act; [or]

123 (9) [any] Any new or renewal contract or policy entered into on or
124 after July 1, 2003, to provide health care coverage to individuals
125 eligible for a health coverage tax credit and their dependents under a
126 plan procured pursuant to section 5-259, as amended by this act;

127 (10) Any new or renewal contract or policy entered into on or after
128 July 1, 2005, to provide health care coverage to employees of
129 community action agencies and their dependents under a plan
130 procured pursuant to section 5-259, as amended by this act; or

131 (11) Any new or renewal contract or policy entered into on or after
132 July 1, 2005, to provide health care coverage to retired members and
133 their dependents under a plan procured pursuant to section 5-259, as
134 amended by this act.

135 (c) The provisions of this chapter pertaining to the filing of returns,
136 declarations, installment payments, assessments and collection of
137 taxes, penalties, administrative hearings and appeals imposed on
138 domestic insurance companies shall apply with respect to the charge
139 imposed under this section.

140 Sec. 3. Subdivision (4) of section 38a-564 of the general statutes is
141 repealed and the following is substituted in lieu thereof (*Effective from*
142 *passage*):

143 (4) (A) "Small employer" means any person, firm, corporation,

144 limited liability company, partnership or association actively engaged
145 in business or self-employed for at least three consecutive months
146 who, on at least fifty per cent of its working days during the preceding
147 twelve months, employed no more than fifty eligible employees, the
148 majority of whom were employed within the state of Connecticut.
149 "Small employer" includes a self-employed individual. In determining
150 the number of eligible employees, companies which are affiliated
151 companies, as defined in section 33-840, or which are eligible to file a
152 combined tax return for purposes of taxation under chapter 208 shall
153 be considered one employer. Eligible employees shall not include
154 employees covered through the employer by health insurance plans or
155 insurance arrangements issued to or in accordance with a trust
156 established pursuant to collective bargaining subject to the federal
157 Labor Management Relations Act. Except as otherwise specifically
158 provided, provisions of sections 12-201, 12-211, 12-212a and 38a-564 to
159 38a-572, inclusive, which apply to a small employer shall continue to
160 apply until the plan anniversary following the date the employer no
161 longer meets the requirements of this definition.

162 (B) "Small employer" does not include [(A)] (i) a municipality
163 procuring health insurance pursuant to section 5-259, as amended by
164 this act, [(B)] (ii) a private school in this state procuring health
165 insurance through a health insurance plan or an insurance
166 arrangement sponsored by an association of such private schools, [(C)]
167 (iii) a nonprofit organization procuring health insurance pursuant to
168 section 5-259, as amended by this act, unless the Secretary of the Office
169 of Policy and Management and the State Comptroller make a request
170 in writing to the Insurance Commissioner that such nonprofit
171 organization be deemed a small employer for the purposes of this
172 chapter, [or (D)] (iv) an association for personal care assistants
173 procuring health insurance pursuant to section 5-259, as amended by
174 this act, (v) a community action agency procuring health insurance
175 pursuant to section 5-259, as amended by this act, or (vi) any group
176 whose coverage is not subject to the provisions of this part pursuant to
177 subdivision (22) of section 38a-567, as amended by this act.

178 Sec. 4. Subdivisions (5) and (6) of section 38a-567 of the general
179 statutes are repealed and the following is substituted in lieu thereof
180 (*Effective from passage*):

181 (5) (A) With respect to plans or arrangements issued on or after July
182 1, 1995, the premium rates charged or offered to small employers shall
183 be established on the basis of a community rate, adjusted to reflect one
184 or more of the following classifications:

185 (i) Age, provided age brackets of less than five years shall not be
186 utilized;

187 (ii) Gender;

188 (iii) Geographic area, provided an area smaller than a county shall
189 not be utilized;

190 (iv) Industry, provided the rate factor associated with any industry
191 classification shall not vary from the arithmetic average of the highest
192 and lowest rate factors associated with all industry classifications by
193 greater than fifteen per cent of such average, and provided further, the
194 rate factors associated with any industry shall not be increased by
195 more than five per cent per year;

196 (v) Group size, provided the highest rate factor associated with
197 group size shall not vary from the lowest rate factor associated with
198 group size by a ratio of greater than 1.25 to 1.0;

199 (vi) Administrative cost savings resulting from the administration of
200 an association group plan or a plan written pursuant to section 5-259
201 provided the savings reflect a reduction to the small employer carrier's
202 overall retention that is measurable and specifically realized on items
203 such as marketing, billing or claims paying functions taken on directly
204 by the plan administrator or association, except that such savings may
205 not reflect a reduction realized on commissions; [and]

206 (vii) Savings resulting from a reduction in the profit of a carrier who
207 writes small business plans or arrangements for an association group

208 plan or a plan written pursuant to section 5-259, as amended by this
209 act, provided any loss in overall revenue due to a reduction in profit is
210 not shifted to other small employers; and

211 [(vii)] (viii) Family composition, provided the small employer
212 carrier shall utilize only one or more of the following billing
213 classifications: (I) Employee; (II) employee plus family; (III) employee
214 and spouse; (IV) employee and child; (V) employee plus one
215 dependent; and (VI) employee plus two or more dependents.

216 (B) The small employer carrier shall quote premium rates to small
217 employers after receipt of all demographic rating classifications of the
218 small employer group. No small employer carrier may inquire
219 regarding health status or claims experience of the small employer or
220 its employees or dependents prior to the quoting of a premium rate.

221 (C) The provisions of subparagraphs (A) and (B) of this subdivision
222 shall apply to plans or arrangements issued on or after July 1, 1995.
223 The provisions of subparagraphs (A) and (B) of this subdivision shall
224 apply to plans or arrangements issued prior to July 1, 1995, as of the
225 date of the first rating period commencing on or after that date, but no
226 later than July 1, 1996.

227 (6) For any small employer plan or arrangement on which the
228 premium rates for employee and dependent coverage or both, vary
229 among employees, such variations shall be based solely on age and
230 other demographic factors permitted under subparagraph (A) of
231 subdivision (5) of this section and such variations may not be based on
232 health status, claim experience, or duration of coverage of specific
233 enrollees. Except as otherwise provided in subdivision (1) of this
234 section, any adjustment in premium rates charged for a small
235 employer plan or arrangement to reflect changes in case characteristics
236 prior to the end of a rating period shall not include any adjustment to
237 reflect the health status, medical history or medical underwriting
238 classification of any new enrollee for whom coverage begins during
239 the rating period.

240 Sec. 5. Section 38a-567 of the general statutes is amended by adding
 241 subdivision (22) as follows (*Effective from passage*):

242 (NEW) (22) With respect to coverage offered by the Comptroller
 243 pursuant to subsection (i) of section 5-259, as amended by this act, or
 244 coverage offered through an association group plan, if, with respect to
 245 a specified policy period, the Comptroller or the administrator of the
 246 association group plan seeks coverage for three thousand or more
 247 individuals from a small employer carrier or other carrier, at the
 248 option of the Comptroller or administrator, such coverage shall not be
 249 subject to the provisions of this part.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	5-259(i)
Sec. 2	<i>July 1, 2005, and applicable to income years commencing on or after January 1, 2005</i>	12-202a
Sec. 3	<i>from passage</i>	38a-564(4)
Sec. 4	<i>from passage</i>	38a-567(5) and (6)
Sec. 5	<i>from passage</i>	38a-567

FIN Joint Favorable Subst.

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 06 \$	FY 07 \$
Department of Revenue Services	GF - Revenue Loss	Potential	Potential
Comptroller	GF - None	None	None

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill is not anticipated to result in any immediate fiscal impact to the insurance premiums tax as a result of exempting certain health insurance policies obtained through the Municipal Employees Health Insurance Program (MEHIP) or an association group. Currently, it appears that policies covering employees of community action agencies are not subject to the tax because policies for employees of nonprofit organizations (CGS §12-202a(b)(8)) are exempt from the tax.

However, the bill may result in a future loss in premium tax revenue to the extent that towns that participate in the municipal employees retirement system decide to switch carriers and procure insurance through MEHIP. Currently, premiums paid to procure insurance for retirees are subject to the tax.

The state will bear no costs associated with the inclusion of retired members of the Municipal Employees Retirement System in the MEHIP provided under the bill. MEHIP is sponsored by the Office of the State Comptroller (OSC) and managed by a third party administrator. By design, any costs incurred by the program are passed on to the participants.

As of March 2005, MEHIP covers 247 groups consisting on 14,000

lives with an average annual premium per MEHIP member of \$7,250, according to the OSC.

OLR Bill Analysis

sHB 6655

***AN ACT CONCERNING GROUPS COVERED UNDER THE STATE
EMPLOYEE HEALTH PLAN AND ASSOCIATION GROUP PLANS*****SUMMARY:**

This bill extends participation in the Municipal Employee Health Insurance Plan ("MEHIP") to (1) individuals eligible for a retirement benefit from the Connecticut municipal employees' retirement system ("retired members"); and (2) federally qualified nonprofit corporations that have contracts with the state, receive any public funding, or have federal tax-exempt status.

The bill (1) no longer requires small employer groups participating in MEHIP to be fully insured, at the discretion of the comptroller and (2) requires savings realized by a small employer participating in MEHIP or an association health plan to be considered when developing rates for that small employer plan. It also specifies that the small employer rating law does not apply when the comptroller or an association group plan seeks to arrange coverage for 3,000 or more individuals from an insurance carrier. It excludes from the definition of small employer (1) any group that contributes to the 3,000 or more individuals and (2) community action agencies.

The bill expands the list of plans that are exempt from the 1.75% HMO premium tax. It also makes technical and conforming changes.

EFFECTIVE DATE: Upon passage, except for the premium tax provisions, which are effective July 1, 2005 and apply to income years beginning on or after January 1, 2005.

RATING FACTOR

By law, insurers and HMOs must use adjusted community rating when developing premium rates for small employer groups. Community rating is the process of developing a uniform rate for all enrollees. An adjusted community rate modifies a community rate by specific case characteristics. Under current law, "case characteristics"

means demographic or other objective characteristics of a small employer group's employees, including age, gender, family composition, location, size of group, administrative cost savings resulting from the administration of an association group plan or a plan written through the MEHIP, and industry classification.

The bill adds to this list savings resulting from a carrier's reduced profit because of issuing small employer plans through MEHIP or an association, provided any loss in the carrier's overall revenue because of the reduced profit is not shifted to other small employers.

SMALL EMPLOYER DEFINITION

By law, a "small employer" is an employer with one to 50 employees, including a self-employed person. Current law excludes from the small employer definition a (1) private school obtaining health insurance through an association of private schools; (2) municipality participating in MEHIP; (3) nonprofit organization participating in MEHIP, unless the comptroller and the Office of Policy and Management secretary make a written request to the insurance commissioner to treat it as a small employer; and (4) personal care assistants association participating in MEHIP. The bill also excludes a (1) community action agency participating in MEHIP and (2) any group that is not subject to the small employer rating law because it contributes to the 3,000 or more individuals for whom the comptroller or an association is arranging coverage.

PREMIUM TAX EXEMPTION

By law, HMOs must pay an annual premium tax of 1.75% per contract or policy. Current law exempts contracts or policies issued to employees of municipalities and nonprofit organizations from the tax. The bill also exempts the following health care contracts and policies from the tax:

1. any new or renewal contract or policy obtained through MEHIP and entered into after June 30, 2005 that provides coverage to a community action agency's employees and their dependents; and
2. any new or renewal contract or policy obtained through MEHIP and entered into after June 30, 2005 that provides

coverage to retired members and their dependents.

BACKGROUND

MEHIP

MEHIP is a group health insurance program for municipal employees sponsored by the Office of the Comptroller and established by law. Subsequent laws expanded MEHIP eligibility to (1) nonprofit community action agencies, (2) state-contracted nonprofit corporations, (3) regional emergency telecommunications centers and tourism districts, and (4) small employers.

Connecticut law requires participation in MEHIP to be voluntary. It also requires that (1) MEHIP not affect the rates the state pays for state employee health plans and (2) the participants pay all MEHIP administration costs.

Related Bills

sSB 1034 (File 236) extends MEHIP participation to uninsured individuals and excludes a community action agency obtaining insurance through MEHIP from the definition of small employer.

sHB 6654 (File 257) eliminates age as an allowable rating factor for small employer plans.

Legislative History

On April 19, the House referred the bill (File 255) to the Labor and Public Employees Committee, which reported it out unchanged on April 26. On April 28, the House referred the bill (File 255) to the Finance, Revenue and Bonding Committee, which removed the premium tax exemption for certain small employers.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable Substitute

Yea 12 Nay 4

Labor and Public Employees Committee

Joint Favorable Report
Yea 8 Nay 4

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 25 Nay 18